April 21, 2010

# JOIN THE BAILOUT BILL ACTION TEAM!

Floor consideration of the Bailout Bill is expected to begin soon in the Senate. This bill must be defeated, and we can help Republicans in the Senate win this fight! Members of the Bailout Bill Action Team will sign up for tasks including:

- Monitoring the media and making sure the Republican perspective is represented
- Raising awareness of the issue in your state and local media
- Participating in a social media campaign on various platforms your office uses

## Reasons to Oppose the Bailout Bill – And YES – It is a Bailout Bill

A lot of attention has been focused on the $50 billion bailout fund currently in the Senate bill, and for good reason. **The fund would institutionalize permanent bailouts by signaling creditors of large financial firms that they will be bailed out if those firms fail.** Large financial firms would at the same time receive an unfair advantage in the marketplace versus their smaller competitors because of the government backing of their creditors.

But if the $50 billion fund is removed – THIS IS STILL A BAILOUT BILL. There are other "backdoor" bailouts included in the bill. The bill's resolution authority allows the FDIC to pay creditors more than they would receive in bankruptcy (which is the definition of a bailout), and lets the FDIC and Treasury pick and choose which creditors get bailed out.

- The bill also expands the ability of Treasury and regulators to conduct back door bailouts through extensions of Federal Reserve credit, bridge loans, and broad-based guarantees of bad debt. Under this bill firms could be propped up that would otherwise go into bankruptcy.
- The bill only provides for a "strong presumption", but not a requirement, that shareholders and creditors of a company under the bill's bailout authority bear the losses of the financial company. This is a loophole that allows regulators to bail out shareholders and creditors, pick winners and losers, and require taxpayers to pick up the tab for Wall Street's failures.

At a time when Americans are rightly focused on what this Administration and Congress are doing to create jobs**, this bill will kill jobs** by imposing unnecessary costs and a new crushing regulatory burden on non-financial companies all over this country.

- Instead of these companies investing in new factories or investing in additional research and development, the democrats would require non-financial companies all over the country to needlessly tie up billions of dollars in collateral, even though these companies do not pose a significant threat to the broader economy through their financial transactions.
- The bill will also make it more difficult and expensive for credit-worthy borrowers to get a loan – another thing our struggling economy does not need.

The American people have already rejected this Administration's government takeover of our health care economy as too much government intrusion into our lives and too expensive for us to afford. So what do the Democrats in Washington do in response? They propose a takeover of our financial services economy, giving federal bureaucrats the power to decide which firms live and which firms die, and to micromanage what kind of credit each consumer qualifies for.

## House Republicans Have a Comprehensive Plan With a Central Theme of No More Bailouts

- House Republicans were the first to offer a comprehensive financial regulatory reform plan back in July of 2009 (HR 3310).
- By putting an end to bailouts designed to spare large firms and their creditors from the consequences of their mistakes, Republicans have offered a clear alternative to the limitless and unconstrained "bailout authority" that some want to confer upon those very regulators that failed to anticipate the current crisis that almost wrecked our financial system.
- Republicans also reject the call for a government-run economy that depends upon the omniscience and omnipotence of government regulators who have shown themselves unable to anticipate crises, let alone do anything to prevent them.
- Protecting the taxpayer is the most important goal of our plan. Rather than institutionalizing a new "resolution" authority, which would codify a government promise to bail out large failed firms, our plan calls for the resolution of insolvent non-bank institutions — no matter how large or systemically important — through the bankruptcy system and the rule of law, not the whim of a federal bureaucrat.
- The Republican plan would make the Federal Reserve more transparent and accountable to taxpayers and would re-focus the Fed on its monetary policy mandate rather than greatly expanding the duties of this unaccountable entity.
- Rather than identifying in advance "too big to fail firms" the Republican plan sets up a Market Stability and Capital Adequacy Board to identify risks that could endanger the stability and soundness of the system without creating an unnecessary extra layer of regulation.
- Unlike the Democrats, Republicans address one of the core causes of the recent financial crisis and the biggest bailout of them all, by putting forth a plan to permanently end the taxpayer bailout of the housing giants, Fannie Mae and Freddie Mac.

# FACT CHECKING THE DEBATE

**FACT: The largest recipients of government assistance since the economic crisis began are actually not Wall Street banks.**

Fannie Mae and Freddie Mac are already expected to **cost taxpayers at least $389 billion**, with a commitment from Treasury for taxpayer support that is **unlimited through 2012**.

The government's commitment to the GSEs totals **at least 2.04 trillion –** yet the **Dodd bill does NOTHING** to address this bailout.

American taxpayers could spend as much as **$1.318 trillion to bail out foreign banks and governments** – yet the **Dodd bill does NOTHING** to address this either.

**The Numbers**

In addition to the $389 billion in taxpayer subsidies for their mortgage commitments, Treasury and the Federal Reserve have made commitments to invest in Fannie Mae and Freddie Mac, the GSEs, shown in the chart.

**Bailing Out Foreign Banks and Governments**

There are **$8.1 trillion** in GSE securities outstanding, **$1.318 trillion** of which is held by foreign investors. Both **Federal Reserve Chairman Ben Bernanke** and **Treasury Secretary Tim Geithner** have stated their unwavering commitment to the obligations of the GSEs, which means that the federal government is wholly committed to meeting the obligations of these investors.

| Program | Financial Commitment |
|---|---|
| Treasury GSE Preferred Stock Purchase | **UNLIMITED through 2012**<br><br>As of December 10, 2009 Treasury had spent $110.6 billion**:**<br><br>• $59.9 billion to Fannie Mae<br>· $50.7 billion to Freddie Mac<br><br>CBO 10-year estimate: **$389 billion** |
| Treasury GSE Mortgage-Backed Securities (MBS) Purchase | **$226 billion** |
| Federal Reserve Mortgage-Backed Securities (MBS) Purchase | **$1.25 trillion** |
| Federal Reserve GSE Debt Purchase | **$175 billion** |
| | **TOTAL: 2,040,000,000,000 and counting** |

**Translation: American taxpayers are obligated to bail out foreign investors.**

Republicans want to end bailouts for Wall Street and foreign banks, and they have a plan to protect American taxpayers, H.R. 3310.

**FACT: The Dodd Bill Expands "Too Big To Fail," Doesn't End It**

Rather than end "Too Big To Fail," the Dodd bill expands it. Below is a selection of quotes about this issue.

**TIME Magazine** (April 8, 2010)

"Yet policy experts and economists from both ends of the political spectrum say the bill does little to end the problem of banks' becoming so big that the government is forced to bail them out when they stumble. Some say the proposed financial reform may even make the problem worse."

**Jeffrey Lacker, Richmond Federal Reserve President** (*CNBC* Interview, April 6, 2010)

**CNBC**: The Dodd bill allows for a three-bankruptcy judge panel to declare insolvency. It allows losses to go to unsecured creditors; it allows management to be replaced and shareholders to be wiped out. How much clearer could the government be in this bill that there will be real losses to investors?

**Lacker**: It allows those things, but it does not require them. Moreover, it provides tremendous discretion for the Treasury and FDIC to use that fund to buy assets from the failed firm, to guarantee liabilities of the failed firm, to buy liabilities of the failed firm. They can support creditors in the failed firm. They have a tremendous amount of discretion. And if they have the discretion, they are likely to be forced to use it in a crisis.

**William Isaac, Former FDIC Chairman** (*American Banker*, April 13, 2010)

"Nearly all of our political leaders agree that we must banish the "too big to fail" doctrine in banking, but neither the financial reform bill approved in the House nor the bill promoted by Senate Banking Committee Chairman Chris Dodd, D-Conn., will eliminate it."

**Simon Johnson, MIT Professor** (*Time*, April 8, 2010)

"Too big to fail is opposed by the right and the left, though not apparently by the people drafting legislation. The current financial reform bills are effectively a wash on the issue."

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